

GUARDIAN

A PUBLICATION FOR THE CLIENTS OF PORTFOLIO STRATEGIES, INC.

Market Commentary



The year is half over and questions remain about our economy, new government legislation, the world economy, and, most important, how all of these will affect each of us.

The news is full of predictions for a recovery this year, next year, or the year after. It is difficult knowing what to believe, since all of these predictions come with accurate data supporting their positions.

As money managers, we cannot make predictions; we will leave that to the “experts.” However, we make adjustments to our strategies as opportunities present themselves. At PSI, we continually monitor and adjust our portfolios as market conditions change.

David Jajewski
President

FOLLOWING THREE MONTHS OF STEADY recovery, most U.S. and International equity markets stalled a bit in the month of June. For the month, the Nasdaq Composite and Russell 2000 managed to hang on to small gains, while the broad-based S&P 500 Composite was unchanged and the Blue Chip dominated Dow Jones Industrials lost a small amount. For the quarter ending June 30, 2009 however, the picture is much more sanguine with double-digit gains across the spectrum of major market averages. It marks the best quarterly performance for most averages in over a decade. Again, the Nasdaq Composite and Russell 2000 led the way with gains 20.52% and 20.69%, respectively, while the S&P 500 tacked on 15.93% and the

Dow Jones Industrial Average recovered by 11.96%. When the market reached its recovery high on June 12, all four major U.S. benchmark averages had turned positive for the year, wiping out substantial first quarter losses. By the end of the quarter all except the Dow (-2.01% year-to-date) remained in the black, with gains of 3.16% for the year for the S&P 500, 2.64% for the Russell 2000, and a lofty 17.17% gain in the technology driven Nasdaq.

Much of the economic news during the month focused on the terms *Green Shoots* and *Greenbacks*. *Green shoots* became the code words coined by the Fed and the media to describe a slight up-tick (or at least a lessening in the steepness of the decline) in some

of the housing and other economic data. While it is of little comfort to the millions who have lost their jobs with unemployment nearing 10%, many analysts are encouraged that a recovery—slow and modest as it might be—is in the offing. *Greenbacks* were cause for much media attention as well, as a deluge of economic stimulus money from the federal government in the form of \$250 stimulus checks found their way into the wallets of many Americans. Rather than spend this money as the government hoped, the U.S. savings rate as a percentage of disposable income soared to 6.5%—its highest level in over 16 years. However, by month end, hopes for an immediate recovery had diminished. Breaking a string of three consecutive monthly increases,

June's Consumer Confidence Index fell by 5.5 points with sentiment turning negative regarding future business conditions, employment, housing prices, and expected income.

Over the past couple of months we have seen what we believe constitutes a *buying panic*. In a buying panic, investors fear being under-invested. They are holding huge amounts of capital, either in rapidly declining Treasury bonds, CDs, or money markets that are yielding close to zero interest and pouring money back into stocks. We believe that at least a moderate correction, if not a retest of the March lows, is long overdue. 🌸

Returns supplied by Zephyr Style Advisor.



The Fallacy of Index Funds and Fees

WONDERING WHETHER YOUR FINANCIAL ADVISER IS at a loss and just guessing what you should do next? If you are being told the best place to invest is to buy-and-hold index funds with the lowest expenses, your adviser is only telling you half the story.

Investing solely in index funds is equivalent to throwing up your hands and saying there's no point in trying to think your way into better returns.

Index funds are a broad representation of the market. Their returns are completely relative to the industry they represent and the general economy. If the economy is in the pits and the industry is reporting losses, the index fund is going down. Having the lowest fees just means it may go down fractionally less. If the economy recovers, the index will recover, but only to the extent that the market segment it represents recovers. If, as many economists project, the U.S. economy is in for a period of little growth and lots of problems in sectors such as automotive, an index fund that represents the broad market is in for the same fate.

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Can you think of any activity in life where passivity is the path to success? It doesn't exist. In sports, work, and even relationships, getting what we want takes action. It takes thinking, planning, anticipating where the opportunities are, making decisions and being prepared to change our minds if the results aren't what we anticipated. Moreover, it takes preparing for disaster, because sometimes things go wrong no matter how much we prepare.

Passive investing in index funds is easy and you can always blame the market if you fail. However, it's not good investing. If you are looking for ways to rebuild your portfolio, to regain financial security, you need active management. That's

where Portfolio Strategies is different. We are actively looking for opportunities—opportunities to avoid losses and achieve profits regardless of market direction. 🌸

While actively managed accounts pursue strategies that are intended to outperform passive investing, there can be no assurance that the strategies or their pursuant will be successful. Before purchasing an index fund, request a prospectus and read it carefully to understand the fund's investment directive, fees, and risks. This information is found in the prospectus.

If you have questions about PSI or our programs, call your Representative or our office at (800) 959-2001.

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PORTFOLIO STRATEGIES
INVESTMENT MANAGERS
1724 West Union Avenue, Suite 200
Tacoma, WA 98405

